

The New Straits Times - Bank Negara May Expand Short-Selling Of Govt Bonds

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Bank Negara may expand short-selling of govt bonds

KUALA LUMPUR: Malaysia is considering easing rules on the short-selling of government bonds to deepen domestic financial markets and revive interest in its debt.

Bank Negara Malaysia would allow companies and insurers to short sell sovereign bonds to help them manage their interest-rate exposure and generate more trading volume, said assistant governor Adnan Zaylani Mohamad Zahid in an interview recently.

The central bank was still "providing liquidity" to the currency market after measures last year to discourage speculators limited activity in the ringgit, he said.

Policymakers are seeking new ways to develop Malaysia's markets and bring in funds after some investors fled in the wake of a crackdown on trading of offshore non-deliverable ringgit forwards in November.

Global funds have pulled more than RM35 billion from Malaysian sovereign bonds in the four months through February, the longest stretch of outflows since 2014, while adding to holdings of other regional markets.

The move to allow corporates and insurers to short-sell government debt would boost liquidity, which "also benefits foreign investors who operate in the onshore bond market", said Adnan.

"We're hoping to build liquidity in the onshore market, and by also undertaking further liberalisation of the onshore market, we will go, to some extent, in that direction."

The central bank is also planning to revise regulations to make it easier for small and medium companies to hedge.

The ringgit has rebounded from a 1998 low and reached a four-month high on Monday. It has climbed 1.6 per cent this year to outperform regional peers, including the Philippine peso. It trails other Asian currencies including the baht, the rupee and the won.

Adnan said policymakers were not concerned as "the ringgit market is still adjusting" and its stabilisation would occur within the three- to six-month time

frame authorities had expected for its recent measures to yield results.

"We are providing liquidity quite regularly. That's probably going to be the case until the market stabilises. It looks like the ringgit is more stable. Some of the market indicators have improved so, as we go forward, Bank Negara can take a step back eventually."

Bank Negara has taken steps to provide greater hedging flexibility in the onshore currency market and pledged to continue developing the market.

Exchange rate volatility has eased with the average intraday movement falling to about 53 points in January from 82 points in December, according to the nation's Financial Markets Committee.

The bid/ask spread on Malaysian bonds had narrowed to 20 sen to 50 sen, from a peak of RM2 after the United States election, said the committee.

The yield on 10-year Malaysian

notes dropped 14 basis points this year to 4.13 per cent, compared with an 87-basis point decline in similar-maturity Indonesian debt.

The central bank said this month non-resident holdings in the bond market were gradually declining and were at 28.7 per cent of the total as of end-February, from a 2016 peak of 34.7 per cent.

Foreign ownership would probably comprise more of long-term holders from now, said Adnan.

"We expect the bond market to show more stability and the foreign exchange market to be more stable because we don't have the short-term inflows and outflows driving the market."

If the ringgit was accurately reflecting Malaysia's economic fundamentals, it should be stronger than the current level, he said.

"Growth is not at its strongest point, but certainly the degree of ringgit weakening that we've seen in the past had been excessive," Adnan said.

"It is being more driven by the NDF (non-deliverable forward) market, which tends to spiral very quickly in times of uncertainty." **Bloomberg**



Adnan Zaylani Mohamad Zahid